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DEPT FOR AF/S, AF/EPS, DRL:TU DANG
JOHANNESBURG FOR LABOR OFFICER ROBERT EWING

E.O. 12958: N/A

TAGS: ELAB ECON SF LT

SUBJECT: CORRECTED COPY: TERMINATION OF MADAGASCAR'S AGOA ELIGIBILITY
MAY LEAD TO FURTHER JOB LOSSES IN LESOTHO

REF: 09 MASERU 437

Madagascar's AGOA eligibility terminated

¶11. On December 23, 2009, President Obama announced that Madagascar, together with Niger and Guinea, was not making continual progress in meeting African Growth and Opportunity Act (AGOA) requirements. Effective January 1, 2010, those countries' designations as AGOA beneficiaries was terminated. The termination of Madagascar's AGOA eligibility is expected to have negative effects on employment in Lesotho, especially at the local denim mill. Blue jean manufacturers in Madagascar were major customers of the denim mill. Madagascar's AGOA status may also affect other countries in the region since the same local factory which imports Lesotho denim uses exclusively African-origin cotton.

1,200 job losses and factory closure possible

¶12. The local denim mill is known as Formosa Textile, a subsidiary of the Nien Hsing group. The mill exports 30% of the denim fabric it produces to manufacturers of blue jeans in Madagascar. In a statement submitted to the Office of the U.S. Trade Representative on October 15, 2009, in support of the renewal of Madagascar's eligibility under AGOA for 2010, Nien Hsing pointed out that blue jeans manufacturers in Madagascar are major buyers of denim fabric produced by Formosa Textile. Nien Hsing predicted that the economic viability of Formosa Textile would be seriously undermined if Madagascar were to lose its AGOA eligibility, putting Formosa's customers in Madagascar out of business. Nien Hsing also mentioned that Formosa Textile was already losing money due to sagging orders for the United States market under AGOA since the end of the Multi-Fiber Arrangement. According to the company, losing the Madagascar customer base would force them to close the denim mill, which would lead to 1,200 job losses in Lesotho. Nien Hsing has invested \$120 million in Lesotho and employs 9,000 workers, 1,200 of whom work at the denim mill.

Will after-shocks spread to cotton-producing countries in the region?

¶3. Nien Hsing is one of the largest producers of denim fabric in Africa. The denim plant in Lesotho has a capacity of 27 million square meters annually. In addition, the Lesotho denim mill uses exclusively African-origin cotton, consuming approximately 16,000 tons of cotton annually from Malawi, Zambia, Mozambique, Tanzania, and Benin, as well as other countries in the region.

¶4. Note: Nien Hsing is the same company profiled in reftel, which described the firing and subsequent rehiring of employees following a Christmas party. End note.

NOLAN